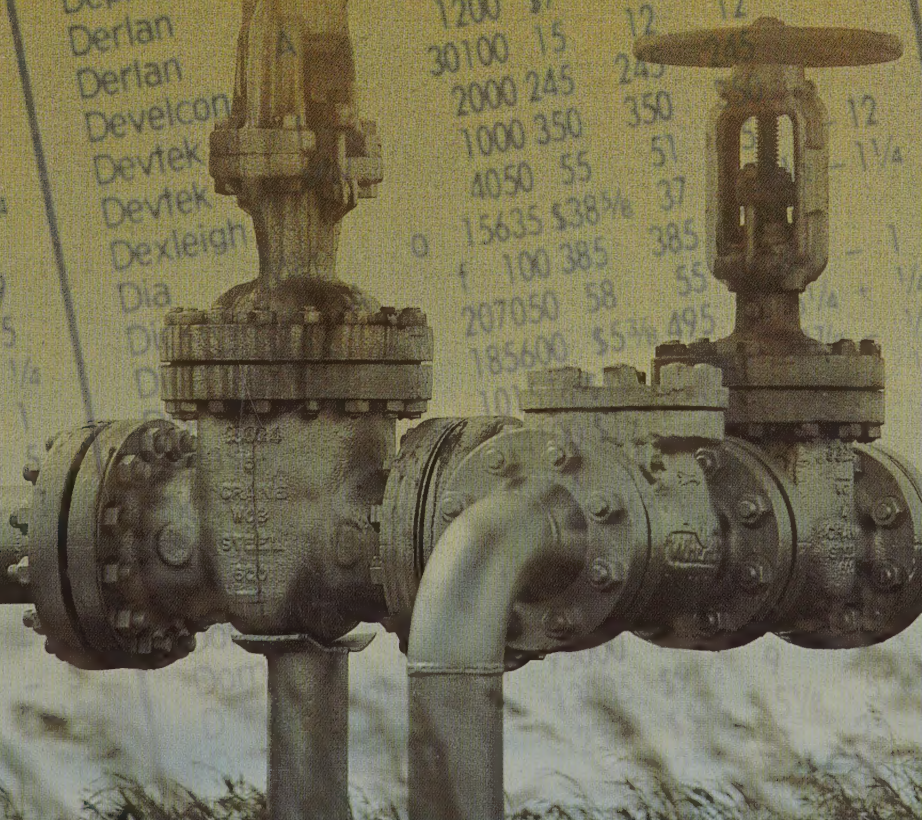


AR44



D-G



dmr	a	f	3100	485	480	485	+	5
Davis	B	f	1200	295	295	295	+	5
Dayton	o	o	24000	230	211	220	+	5
Deak	Res	o	193696	20 1/2	19	19	-	2
Dejour	o	o	22500	11	10 1/2	11	5 1/8	- 1/8
Delrina	C	f	83600	\$5 1/4	5	18	+	22
Denison	B	p	5000	18	18	300	-	10
Denison	B	p	2100	300	295	290	-	5
Denison	A	p	4200	305	290	290	-	5
Deprenyl	R	o	4000	320	320	320	-	5
Deprenyl	U	o	49450	\$7 1/4	6 7/8	6 7/8	-	1/8
Deprenyl	U	o	23029	\$9 1/2	9 1/8	9 3/8	+	3/8
Deprenyl	U	w	2900	165	145	165	+	15
Derlan	A	o	51100	480	470	470	+	15
Derlan	A	o	1200	\$7	6 3/4	7	-	13
Develcon	A	o	30100	15	12	12	-	13
Devtek	A	o	2000	245	245	245	-	12
Devtek	A	o	1000	350	350	350	-	1 1/4
Dexleigh	A	o	4050	55	51	51	-	1 1/4
Dia	A	o	15635	\$38 1/2	37	37	-	1
Dia	A	f	100	385	385	385	-	1
Dia	A	f	207050	58	55	55	1/4	1/4
Dia	A	f	185600	\$5 3/4	495	495	1/8	1/8

Pursuit	Ar	7	30	1
SemiT	B	48350	52	
SemiT	o	15550	2	
Verifac	o	33015	5	
Intrprov	P	r see	Deu	
Intrpro	P	D	100	
Intrswt	D		100	
Inventmic			100	
Inverness			500	
Inverns	875		520	
Inv	Grp		120	
Ipsco	Toy		22	
Irwin	A		28	
Ivaco	C		2	
Ivaco	E		2	
Ivaco	2nd		4	
Ivaco	2nd		28	
Jannock	o		6	
Jonpol	A		6	
Jordan	Enr		6	
Joss	f		6	
Journey	o		6	
Joutel	A		6	
Keltic	Add		6	
Kerr	Logic		6	
LSI			6	
Labatt			6	
Lac	Mnrls		6	
Lafrg	Can		6	
Lafrg	Corp		6	
Laidlaw	A		6	
Laidlw	B		6	
Landmk			6	
Laramie			6	
Laurasia	Bk		6	
Laur	Bk		6	



CZAR RESOURCES LTD.

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ANNUAL MEETING

The Annual Meeting of the Shareholders of Czar Resources Ltd. will be held on Tuesday, May 18, 1993 at 2:30 p.m. in the Westin Hotel, 4th Avenue & 3rd Street S.W., Calgary, Alberta, Canada.

ANNUAL INFORMATION FORM

Copies of the Company's Annual Information Form as filed with the Ontario Securities Commission are available upon written request free of charge to all shareholders of record and beneficial owners of shares. Requests should be directed to the Corporate Secretary at the Company's head office.



CZAR RESOURCES LTD.

C O R P O R A T E P R O F I L E

Czar Resources Ltd. is a Canadian energy company engaged in the exploration for and development and production of natural gas reserves in Western Canada and the marketing of natural gas to purchasers throughout North America.

Czar has developed a natural gas marketing strategy based on the acquisition of a portfolio of long-term contracts, with secure transportation arrangements, to supply gas to users in geographically diversified markets.

The Company's exploration and development strategy is focused on natural gas in the Western Canadian basin. Czar plans to steadily expand its reserves base in order to meet the natural gas reserves obligations of existing contracts and to explore in areas where new contracts and transportation may be obtained.

Czar's corporate objectives are to demonstrate per share growth in earnings, funds flow and asset value while maintaining the Company's financial strength by controlling its financial leverage.



CZAR RESOURCES LTD.

HIGHLIGHTS

Financial

<i>(thousands unless otherwise indicated)</i>	1992	1991	1990
Total Revenue	\$ 23,722	\$ 20,985	\$ 21,189
Funds Flow From Operations	\$ 11,466	\$ 6,693	\$ 7,669
Funds Flow Per Share	\$ 0.31	\$ 0.18	\$ 0.21
Net Earnings (Loss)	\$ 3,701	\$ (387)	\$ 1,637
Net Earnings (Loss) Per Share	\$ 0.10	\$ (0.01)	\$ 0.05
Capital Expenditures	\$ 5,974	\$ 9,368	\$ 14,217
Total Assets	\$ 71,006	\$ 65,375	\$ 66,110
Common Shares Outstanding			
Average	36,716	36,331	36,040
At Year End	43,827	36,445	36,279

Operating

Production (before royalties)			
Natural gas (BCF)	16.4	16.1	14.8
Average daily production (MMCF/D)	45.0	44.2	40.5
Crude oil and natural gas liquids (MSTB)	134	106	118
Average daily production (BBLs/D)	366	291	324

Drilling Activity

Gas Completions	5	9	16
Oil Completions	1	0	0
Dry and Abandoned	1	4	1
Total Wells	7	13	17

Land

Undeveloped Land Holdings (net acres)			
British Columbia	81,879	89,762	127,941
Alberta	55,459	60,151	47,436
Saskatchewan	8,965	5,218	2,761
Total acres	146,303	155,131	178,138

Reserves

Reserves			
Before royalties			
Gas (BCF)	201	205	226
Oil & NGLs (MSTB)	1,224	1,261	1,445
After royalties			
Gas (BCF)	157	158	174
Oil & NGLs (MSTB)	903	936	1,101



CZAR RESOURCES LTD.

P R E S I D E N T ' S M E S S A G E



On behalf of the Board of Directors, I am pleased to report that Czar Resources Ltd. achieved record financial and operating results for the year ended December 31, 1992.

This is especially gratifying as extremely low natural gas prices during the first quarter of 1992 resulted in great concern regarding the outlook for the natural gas industry and the Company. The steady recovery in natural gas prices which commenced in April, 1992 combined with lower interest rates resulted in Czar reporting the highest annual revenues and funds flow in the Company's history.

In addition, the more optimistic outlook for the natural gas industry enabled the Company to complete a rights offering and two equity financings, which have returned Czar to its best financial position in over a decade.

Natural Gas Industry Recovery

Despite continued growth in United States natural gas demand, prices declined precipitously in February of 1992, similar to the price decline of the prior year. While this appeared inconsistent with low industry activity, low levels of natural gas replacement and increased demand, the low prices caused great concern regarding the outlook for Canadian gas exports to the United States.

From early April, 1992 however, a combination of factors which included reports of:

- low 1991 U.S. reserve replacement;
- Oklahoma and Texas plans for natural gas prorationing;
- unusually low natural gas storage levels; and
- more responsible natural gas marketing practices by major companies,

stabilized natural gas markets and resulted in an upward price trend which has continued into 1993.



An apparent deliverability shortfall in Alberta, as a result of a colder than average winter and increased sales to the United States, has also had a positive impact on Canadian natural gas prices.

An objective analysis of the natural gas supply and demand situation strongly suggests that the period of surplus deliverability which has lasted for almost 15 years, known as the gas bubble, has ended and tighter natural gas supply and higher natural gas prices should now prevail for several years.

The Company's business plan has long envisaged a tightening of U.S. supply and a rapid gas price increase when supply and demand came into balance. I am therefore extremely pleased that the long period during which the Company struggled to maintain its reserve base, achieve financial stability and expand its natural gas markets has been brought to a successful conclusion.

A tighter natural gas market will be very favourable to companies such as Czar, which have substantial natural gas reserves, contracts and the infrastructure and transportation commitments to deliver natural gas to long-term end users.

Financial

The Company's total revenues increased to \$23.7 million in 1992 from \$21 million in 1991, primarily due to higher gas prices. This increased revenue together with substantially reduced interest expenses, resulted in Czar's funds flow from operations increasing by 71% to \$11.5 million, or \$0.31 per share, from \$6.7 million, or \$0.18 per share in 1991.

During 1992, the Company reduced expenditures on exploration, development and acquisitions in favour of debt reduction and expended \$6 million, compared with \$9.4 million in 1991. The Company's increased funds flow and reduced capital expenditures, combined with the proceeds from equity issues, reduced the Company's debt by \$12.0 million in 1992. Interest expense was reduced to \$4.1 million from \$6.1 million during the prior year as a result of reduced debt levels and lower interest rates. The debt reduction during 1992 and fixed interest rates on Czar's remaining debt should result in a further substantial reduction in interest charges in 1993.

The Company's key financial ratios improved markedly during 1992. Fixed charge coverage from funds flow improved from 2.1 in 1991 to 3.8 for 1992. Repayability of net debt from funds flow was reduced from 7.5 years in 1991 to 3.3 years for 1992. Debt repayability at the end of 1993, based on reduced debt after the proceeds from the equity issue in March 1993 and current prices and rates of production, is estimated to be less than two years.



Outlook

Czar is currently producing record volumes of natural gas for sale under a diverse portfolio of long-term natural gas contracts. In addition, Czar's financial condition is the best it has been in over a decade and its key financial ratios are comparable to its peer group in the Canadian natural gas industry. Reaching this position is most timely as:

- the North American economic indicators now confirm that a steady recovery is occurring; and
- the outlook for natural gas demand appears excellent, as a result of economic growth and the expanding use of natural gas as an environmentally favourable fuel.

Consequently, the outlook for Czar is excellent. Management's challenge is to achieve growth by focusing on the expansion of its natural gas assets while maintaining financial prudence.

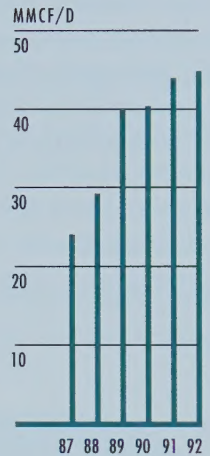
Due to Czar's improved financial structure and the positive outlook for the natural gas business, the Company intends to increase its capital reinvestment rate in 1993. With the Company's previous record of expansion under very difficult financial and business conditions, I am confident of an even more successful result in a much more positive economic setting.

At the end of 1992, Mr. Ed Mattheis resigned his position on the board of directors. On behalf of the board, I wish to thank Mr. Mattheis for his efforts over the past two years and wish him well in his future endeavours. Mr. Gary Pittman of Washington, D.C. has been appointed to fill the vacancy on the board. I believe Mr. Pittman will bring a new perspective to the board and welcome his addition.

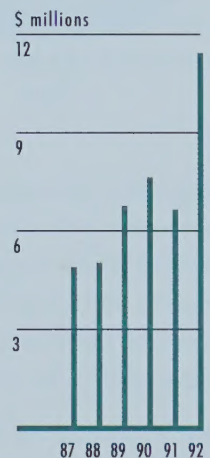
On behalf of the Board.

R.W. Lamond
President
March 18, 1993

GAS PRODUCTION



FUNDS FLOW





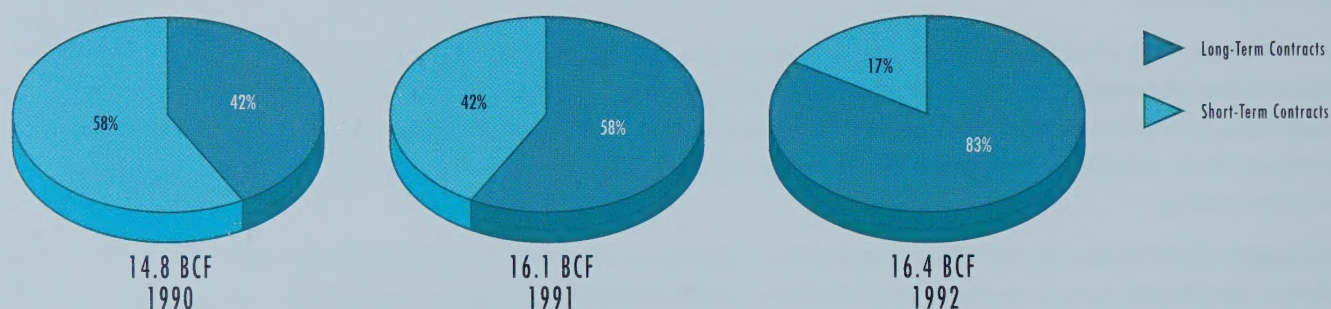
CORPORATE STRATEGY

Czar's corporate strategy is to develop a natural gas reserves base and revenue stream with which to maximize its participation in the growth phase of the natural gas industry.

Czar's business plan is based on the view that the Canadian natural gas industry will steadily improve due to the continued deterioration of the natural gas supply in the United States and the resulting increase in demand for natural gas imports from Canada.

One of the keys to Czar's corporate strategy has been the acquisition of a portfolio of long-term natural gas development contracts. These contracts allow Czar to develop a portion of the required reserves and production over a period of years and permit the acquisition, exploration and development of natural gas reserves to be undertaken and financed with assurance that the new reserves can be produced immediately and sold under satisfactory pricing terms and rates of production.

GAS CONTRACTS – SALES TERM



Long-term contracts have historically yielded higher prices than those available to spot markets in Alberta. While short-term prices have risen recently due to an Alberta deliverability shortage, it is anticipated that long-term contracts in which buyers and sellers trade off price for supply assurance and guaranteed pipeline capacity, should continue to yield higher prices and allow for better long-term planning based on predictable revenue streams. Czar therefore plans to continue to expend a high proportion of available funding to acquire natural gas reserves and deliverability, to maintain and expand such contracts.

Czar's strategy for developing natural gas reserves is based on a balanced program of acquisitions, exploration and exploitation of natural gas properties with the Company's efforts focused on the least costly method of adding reserves and production. In 1992, the Company's program focused almost entirely on acquisitions, however, with increased gas prices, the Company has returned to a more balanced approach with an increased exploration and development program planned for 1993.

In 1992 the Company also commenced a review of its oil properties with a view to upgrade them through either infill or horizontal drilling.



CZAR RESOURCES LTD.

OPERATING MANDATE

Czar has operated since the early 1980's pursuant to the following principal mandates, as dictated by its financial constraints and fluctuating gas prices:

- **Financial Control**

Czar attempts to match its capital expenditures to funds flow from operations and equity financing. The only significant exception to this policy was a decision to finance the major expansion and development of the Helmet gas field and the construction of the Helmet gas gathering and compression system in 1990 and 1991 to supply gas committed to long-term purchasers.

- **Exploration Focus**

Czar concentrates its activities in specific geographic areas of the Western Canadian sedimentary basin, operates virtually all of its prospects and participates for working interests as large as its joint venture arrangements and financial guidelines permit.

The Company primarily explores in select areas where sizeable reserves can be developed and where the Company can build and control the production facilities and pipeline infrastructure.

- **Exploration Joint Ventures**

The Company operates under a joint management and resource development structure with two associated companies. This arrangement provides Czar with lower overhead costs and the economic synergy of a larger financial and natural gas reserves base, which permit access to a wider range of business opportunities.

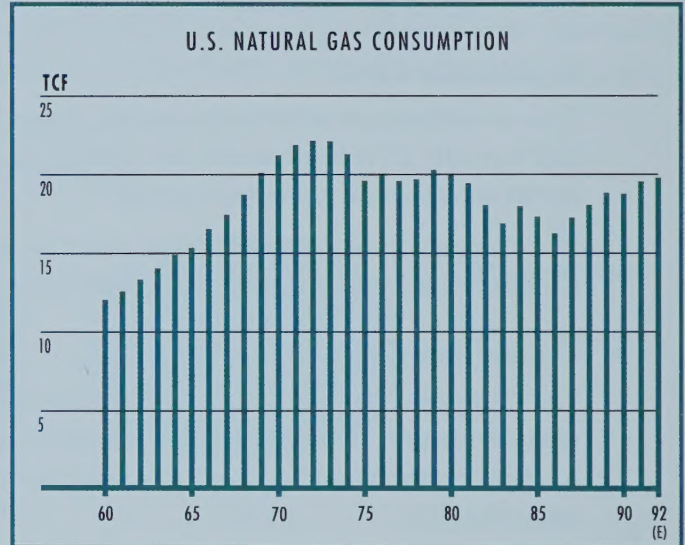
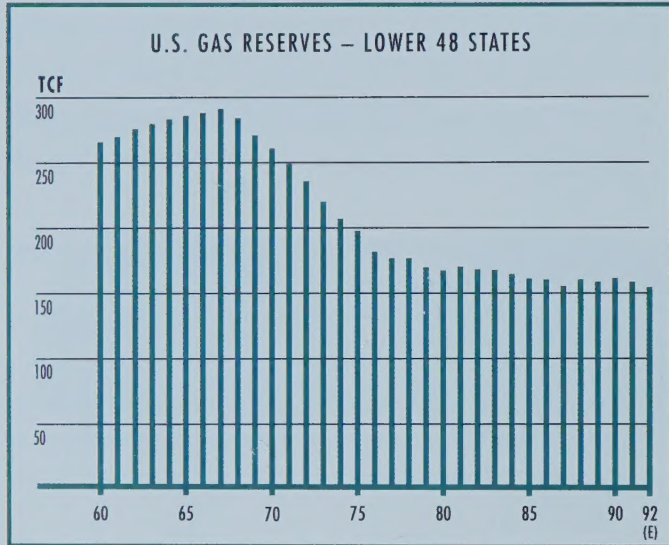


CZAR RESOURCES LTD.

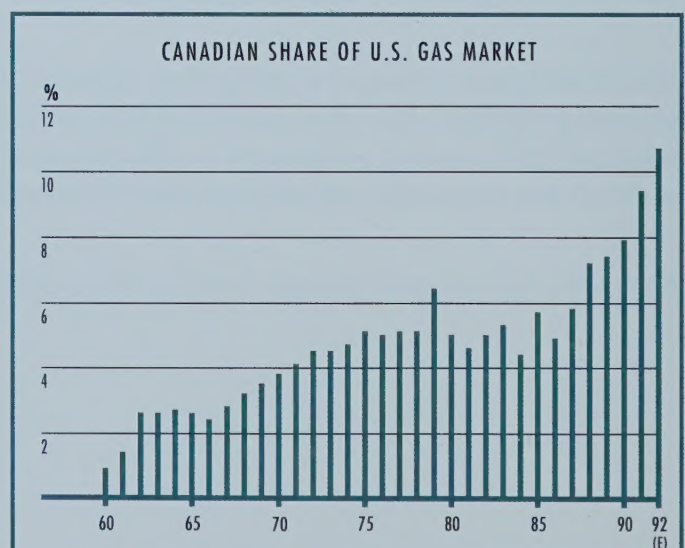
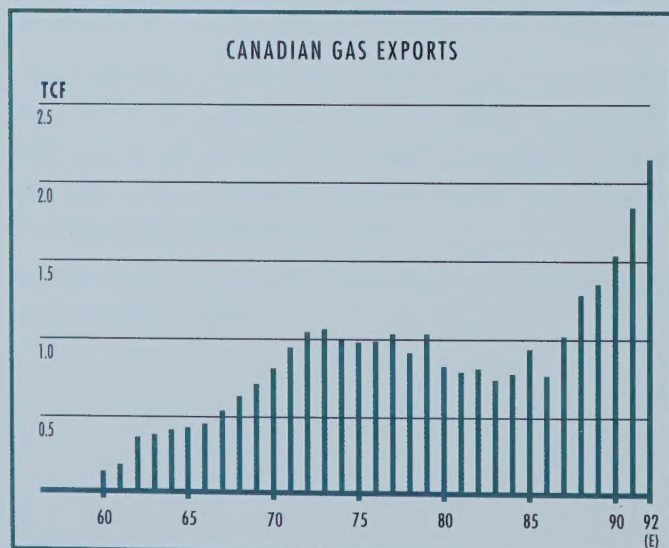
NATURAL GAS INDUSTRY

Czar's business plan was developed on the premise that natural gas is a North American energy commodity in a mature phase of its development cycle, and that the United States natural gas supply is in an irreversible decline, a trend which would eventually result in a shortage and price recovery.

This has been demonstrated by the steady decline of natural gas reserves in the lower 48 United States since 1969. As a result, the reserve life index of natural gas in the lower 48 United States was reduced to approximately nine years by the end of 1992, the lowest ratio in more than a decade.



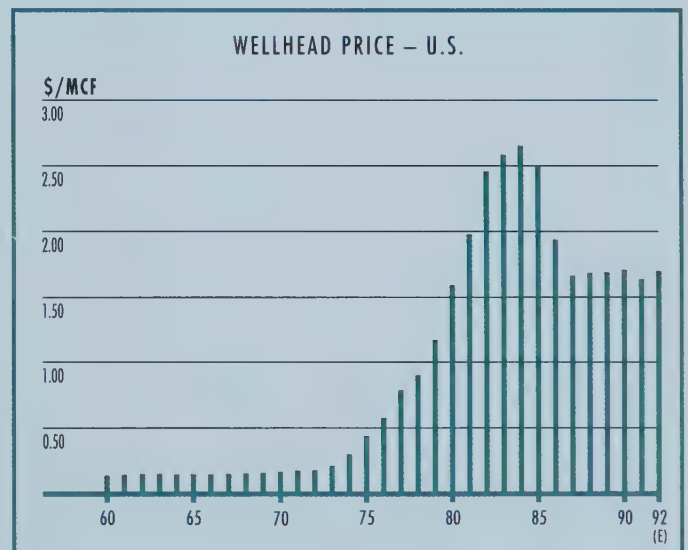
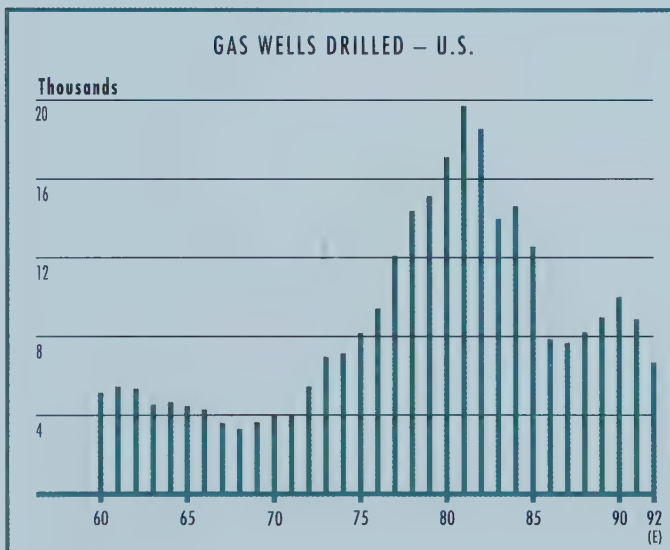
Another indicator that United States domestic gas supply has not kept pace with growing demand is the increase in natural gas imports from Canada, from 750 billion cubic feet in 1986 to over two trillion cubic feet in 1992. During this period, Canadian imports have captured a steadily higher portion of the United States market, increasing from 4.6% in 1986 to over 10% of United States consumption in 1992.





With these positive fundamentals, it was therefore very surprising that U.S. gas prices collapsed in early 1992, with Gulf Coast spot prices reaching lows of \$1 U.S./MCF. Due to the extremely depressed market, a number of major companies commenced shutting in production during this period of low prices. Shortly afterwards, the poor 1991 U.S. gas replacement statistics, debate regarding proration plans in Oklahoma and Texas and low gas storage levels combined to firm gas prices and stabilize the market as concerns were raised about available supply. Prices subsequently trended up to over \$2 U.S./MCF, a level at which most shut in gas would have been placed back on stream. With gas prices having remained high during the 92-93 winter heating season it now appears that United States gas supply had approached a balance with demand, almost coincidentally with the price collapse in February, 1992. It now appears certain that the decade long gas commodity cycle has come full circle.

The period of gas oversupply and low prices has resulted in low drilling levels, low discovery rates and increased demand. Though gas drilling picked up substantially in late 1992 in the United States, the bulk of those wells appear to have been the result of an expiring program providing a tax credit for coal gas drilling. When the tax credit program expired at the end of 1992, natural gas drilling levels collapsed again.



The very lengthy period which it took to achieve this balance has been surprising and has resulted in what in retrospect may be imprudent natural gas marketing practices in the natural gas industry. The switch from long-term contracts to contracts of very short duration will clearly result in significant curtailment problems during periods of shortage and should result in a progressive return to a higher level of industry activity based on higher gas prices and longer term contracts.

Prospects appear excellent for Canadian natural gas producers with long-term gas reserves and contracts. The Western Canadian basin has been more sparsely drilled than the more mature United States basins, and opportunities for finding and developing large new pools of natural gas still exist. The opportunities to acquire low cost gas reserves either through exploration or acquisition are excellent and will play a significant role in Czar's plans to increase reserves and export more natural gas to the United States at steadily improving prices.



NATURAL GAS MARKETING

Corporate Objectives

The objectives of Czar's natural gas marketing efforts are:

- to market the Company's natural gas reserves at optimum prices and rates of take;
- to market the Company's natural gas to end users in geographically diversified locations thereby reducing the Company's exposure to localized market fluctuations; and
- to search for new market opportunities with potential for high rates of take, attractive pricing, long-term outlets and opportunities to expand reserves and deliverability through the term of the contract.

The portfolio of long-term contracts arranged by Czar totals in excess of 745 BCF of gross contracted reserves and includes the following key contracts:

Natural Gas Contracts						
Purchaser	Gross Contract Reserves (BCF)	Gross Daily Contract Quantity, DCQ (MMCF/D)	Czar's Net Production			
			1991 (MMCF/D)	%	1992 (MMCF/D)	%
British Columbia						
Alberta & Southern Gas Co. Ltd.	220.0	40.0	5.1	11.5	7.3	16.2
BC Gas Inc.	185.0	30.0	1.9	4.3	7.4	16.4
CanWest Gas Supply Inc.	105.0	28.0	4.7	10.6	4.2	9.3
Pacific Northern Gas	7.7	2.0	0.1	0.2	0.6	1.3
Alberta						
KannGaz Producers Ltd.	86.7	16.6	6.8	15.5	7.1	15.8
Unigas Corporation	40.0	10.8	1.6	3.6	3.6	8.0
ProGas Limited	51.5	9.0	1.9	4.3	2.4	5.3
Sherritt Fertilizer Company	50.0	16.0	3.4	7.7	4.8	10.7
Total Long-Term Sales	—	—	25.5	57.7	37.4	83.0
Total Short-Term Sales	—	—	18.7	42.3	7.6	17.0
Total Sales	745.9	152.4	44.2	100.0	45.0	100.0

Diversification of Natural Gas Markets

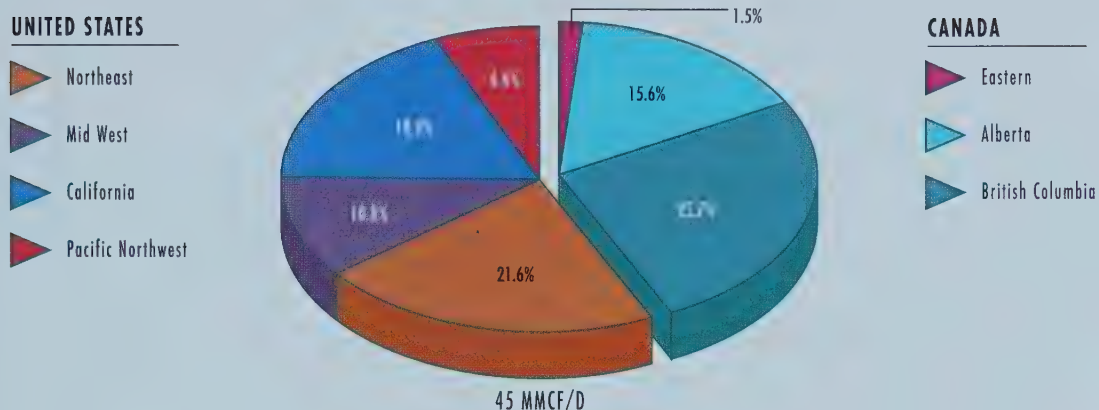
Czar's portfolio of natural gas contracts and accompanying distribution of gas sales graph for 1992, illustrates Czar's success in achieving diversity of its natural gas markets. The marketing strategy is comprised of the following elements:

- to market the gas through a number of natural gas aggregators and to a large number of end users, ensuring markets are in geographically diversified locations;
- to maximize sales under long-term contracts to known reliable purchasers;
- to limit the Company's exposure in any one market region to approximately 20% of the total sales; and
- to monitor political and regulatory activities which may impact on current and future gas contracts in all of its potential markets.



CZAR RESOURCES LTD.

DISTRIBUTION OF GAS SALES – YEAR ENDED DECEMBER 31, 1992



The British Columbia Market

The British Columbia market accounts for 26% of Czar's sales. Although this exceeds the Company's objective of 20%, it includes spot sales which are periodically necessary to maximize the use of long-term firm transportation. With growing demand and increased load factors for long-term contracts, it is anticipated that this percentage will decline.

The California Market

The California market is significant to Czar in that 18.2% of the Company's gas is contracted to Alberta & Southern Gas Co. Ltd. (A&S) for ultimate delivery largely to the northern California utility, Pacific Gas and Electric Company (PG&E), making it the third largest market for Czar's gas.

As a result of continuing negotiations involving the California Public Utilities Commission (CPUC), the U.S. Federal Energy Regulatory Commission (FERC), the Canadian National Energy Board and the Alberta Government, the producers have commenced negotiations with A&S and PG&E to restructure the contracts. The key issues of the restructuring include financial compensation for the loss of an assured quality market, access to pipeline space for new sales and the retention of a portion of the contract for continuing sales to PG&E.

Czar believes that a negotiated settlement with A&S and PG&E is achievable and the Company expects that its British Columbia gas will continue to flow at satisfactory rates and prices.

MEGA NOPR

In another development, FERC has issued a proposed notice to open up access on the U.S. pipeline systems, referred to as the MEGA Notice of Proposed Rulemaking, or MEGA NOPR. If implemented in its current form, it could have a significant negative impact on gas prices and gas contract load factors. Although the outcome cannot be accurately predicted, the Company is guardedly optimistic that its long-term contracts will remain competitive, especially in this period of firming U.S. demand and gas prices.

Growth Opportunities

Through the portfolio of existing natural gas sales contracts, the Czar Group has the opportunity to contract and tie-in an additional 150 BCF of natural gas and deliverability of up to 30 million cubic feet per day over the next three years. In addition to maintaining the existing contracts, the Czar Group has an excellent opportunity to expand its gas contract base and pursue new long-term development contracts during a period of strengthening demand and gas prices.



CZAR RESOURCES LTD.

PRODUCTION

Czar's natural gas production continued to increase through 1992 and averaged 45.0 MMCF/D, slightly higher than the 44.2 MMCF/D averaged in 1991.

Czar's reserves base consists of natural gas reserves in both Alberta and British Columbia which allows Czar to access attractive, geographically diverse markets.

During the year, the Company continued to expand its production capability in the Helmet area to meet increasing contract requirements. This effort included the connection of a new well, Helmet c-20-A, which commenced production at a rate of 9 MMCF/D. Czar completed two significant acquisitions in the Helmet area at the end of 1992. As a result of these purchases and increasing contract demand, the Company initiated a third significant expansion project in as many years which was completed just before year end. The expanded facilities and the connection of two additional wells in the July Lake Pool resulted in an increase in production from Helmet of 18 MMCF/D, and increased the total sales from the area to 75 MMCF/D, in December of 1992. Finally, early in 1993, the Company connected a high deliverability Keg River well to the Helmet system. This well, in which Czar holds a 29% interest, is presently producing at a rate of 9.5 MMCF/D.

During 1992, the Company acquired and connected six additional wells in the Drumheller, Gadsby, Wembley, Hylo and Craigend areas and increased production in Alberta by an average 1.5 MMCF/D net to Czar.



ACQUISITION AND EXPLORATION PROGRAM

In early 1992, Czar made a decision to limit its capital expenditures program due to uncertain gas prices. Due to the more constrained budget than in prior years, Czar participated in fewer drilling projects. In 1992, the Company participated in seven wells resulting in five gas wells, one oil well and one dry hole.

Drilling Results

	Gas Wells		Oil Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1992	5	2.4	1	0.6	1	0.4	7	3.4
1991	9	5.5	0	0	4	1.4	13	6.9
1990	16	8.0	0	0	1	0.3	17	8.3
1989	15	9.3	0	0	3	2.0	18	11.3
1988	15	9.1	0	0	4	2.7	19	11.8
1987	22	9.0	1	0.9	9	3.9	32	13.8
	82	43.3	2	1.5	22	10.7	106	55.5

The collapse of natural gas prices in the spring of 1992, resulted in a decrease in the cost of acquiring natural gas reserves. At the same time, an increased number of productive properties were available from restructuring and downsizing companies. As a result, during 1992 Czar focused on the evaluation and acquisition of natural gas properties rather than exploration activities. This program enabled the Company to add reserves and production to its existing asset base at lower prices and with lower risk than through exploration.

The highlight of the acquisition program was the purchase of assets in the July Lake portion of the Helmet field. This purchase, together with a subsequent acquisition of other interests in the Helmet area added approximately 9.7 BCF net to Czar and allowed for a more efficient plan of exploitation and development of the reserves.

In Alberta, wells were purchased at Wembley, Hylo, Stettler South and Craigend, and were placed on stream by year end, adding 1.5 BCF net to Czar.

The Company drilled an excellent oil well in the Owl area of British Columbia, currently producing 64 BBLS/D, 35 BBLS/D net to Czar and adding 120 MSTB of reserves. A follow up well was unsuccessful.

Subsequent to the year end, Czar's capital expenditure program was modified with the Company's efforts returning to a balance between exploration, acquisitions, enhanced recovery from oil properties through horizontal drilling technology and production facility construction.

In the first quarter of 1993, Czar will be participating in the drilling of five wells, four in Alberta and one in British Columbia. Two are oil prospects and three are natural gas prospects.

In addition, the Company owns an interest in approximately 2,100 acres of lands in the Birch area of British Columbia in the vicinity of two recently announced high productivity horizontal oil wells. Czar and its partners have announced plans to drill at least two horizontal wells on this prospect immediately following break-up, in the second quarter of 1993.



RESERVES

The reserves of the Company were evaluated as at December 31, 1992 by an independent engineering consultant, Fekete Associates Inc. According to the evaluation, Czar's proved and probable reserves, which consist primarily of natural gas, totalled 201 BCF of natural gas and 1,224 MSTB of oil and NGLs.

During 1992, Czar's efforts were focused on the acquisition of natural gas reserves. The Company acquired 15.0 BCF of gas reserves, the majority of which was either producing or has since been connected to market. Czar also developed an additional 1.8 BCF of gas reserves and 131 MSTB of oil and natural gas liquids reserves through drilling. Based on the capital expenditures of \$6 million incurred in 1992, the on stream cost of the reserves was \$0.33 per equivalent MCF of gas.

The disposition of certain non-core properties reduced natural gas reserves by 2.2 BCF. Reserves were further reduced by 3.5 BCF due to a revision to prior year's estimates.

During 1992, Czar produced 16.4 BCF of natural gas and 134.1 MSTB of liquids. As a result, at December 31, 1992 Czar's total proved and probable natural gas reserves declined by 2% and oil and NGLs reserves declined by 3%.

Reserves

	Before Royalties		After Royalties	
	Natural Gas (BCF)	Oil & NGLs (MSTB)	Natural Gas (BCF)	Oil & NGLs (MSTB)
Proved Producing	86.7	991.9	67.7	735.1
Proved Non-Producing	95.7	200.7	74.1	144.6
Total Proved	182.4	1192.6	141.8	879.7
Probable	18.7	31.7	14.7	23.3
Total Proved and Probable	201.1	1,224.3	156.5	903.0

Estimated Present Value of Future Net Revenue

\$ Millions	Undiscounted	10%	15%	20%
Proved Producing	\$102.2	\$ 63.5	\$ 54.3	\$ 47.9
Proved Non-Producing	88.6	30.9	20.8	14.5
Total Proved	190.8	94.4	75.1	62.4
Probable	22.7	4.2	2.0	0.9
Total Proved and Probable	\$213.5	\$ 98.6	\$ 77.1	\$ 63.3



Present Value

The estimated future revenue from Czar's oil and gas reserves as determined by Fekete is based on an average natural gas price of \$1.41/MCF in 1993 escalating to \$1.80/MCF by 1999 and at approximately 4% per year thereafter. The current price estimates for 1993 are higher than those forecast in 1992 while the rate of future price escalation is lower. The effect of the change in price estimates is to decrease the value of the future revenue from the reserves from \$276.4 million at December 31, 1991 to \$213.5 million at December 31, 1992. The discounted present value of the future revenue is affected to a lesser extent. Using a discount rate of 15%, the present value of the estimated future revenue from the Company's reserves was only reduced by 3%, to \$77.1 million at December 31, 1992, compared with \$79.2 million at December 31, 1991.

The average price received by the Company for its natural gas in 1992 was \$1.45/MCF. An increase in natural gas price has a significant impact on the present value of Czar's reserves.

Summary of Natural Gas Production and Reserves by Province

	1992		1991		1990	
	BCF	%	BCF	%	BCF	%
Alberta						
Proved Producing	31.68	16%	32.38	16%	39.85	18%
Proved Non-Producing	18.70	9%	25.88	13%	31.50	14%
Total Proved	50.38	25%	58.26	29%	71.35	32%
Probable	6.16	3%	4.72	2%	6.57	3%
Total Alberta	56.54	28%	62.98	31%	77.92	35%
British Columbia						
Proved Producing	55.01	27%	60.08	29%	57.55	25%
Proved Non-Producing	75.34	38%	70.13	34%	80.98	36%
Total Proved	130.35	65%	130.21	63%	138.53	61%
Probable	12.53	6%	11.61	6%	9.65	4%
Total British Columbia	142.88	71%	141.82	69%	148.18	65%
Saskatchewan						
Proved Producing	—	—	—	—	—	—
Proved Non-Producing	1.68	1%	—	—	—	—
Total Saskatchewan	1.68	1%	—	—	—	—
Total Reserves	201.10	100%	204.80	100%	226.10	100%
Production						
Alberta	7.35	45%	6.10	38%	7.08	48%
British Columbia	9.09	55%	10.03	62%	7.70	52%
	16.44	100%	16.13	100%	14.78	100%



CZAR RESOURCES LTD.

Reserves Continuity

Natural Gas (BCF)			
	Proved	Probable	Total
Reserves at December 31, 1990	209.9	16.2	226.1
Production 1991	(16.1)	—	(16.1)
Additions 1991	2.6	0.1	2.7
— Exploration	0.5	—	0.5
— Net Acquisitions	(8.4)	—	(8.4)
Revisions			
Reserves at December 31, 1991	188.5	16.3	204.8
Production 1992	(16.4)	—	(16.4)
Additions 1992	1.8	—	1.8
— Exploration	14.2	0.8	15.0
— Acquisitions	(2.2)	—	(2.2)
— Disposals	(3.5)	1.6	(1.9)
Revisions			
Reserves at December 31, 1992	182.4	18.7	201.1

Natural Gas Liquids (MSTB)

Reserves at December 31, 1990	884.3	63.2	947.5
Production 1991	(50.5)	—	(50.5)
Additions 1991	—	—	—
— Exploration	—	—	—
— Net Acquisitions	(76.7)	(25.5)	(102.2)
Revisions			
Reserves at December 31, 1991	757.1	37.7	794.8
Production 1992	(64.6)	—	(64.6)
Additions 1992	—	—	—
— Exploration	10.7	—	10.7
— Acquisitions	(3.5)	—	(3.5)
— Disposals	2.1	(6.0)	(3.9)
Revisions			
Reserves at December 31, 1992	701.8	31.7	733.5

Oil (MSTB)

Reserves at December 31, 1990	497.9	—	497.9
Production 1991	(55.3)	—	(55.3)
Additions 1991	—	—	—
— Exploration	—	—	—
— Net Acquisitions	24.0	—	24.0
Revisions			
Reserves at December 31, 1991	466.6	—	466.6
Production 1992	(69.5)	—	(69.5)
Additions 1992	120.7	—	120.7
— Exploration	—	—	—
— Net Acquisitions	—	—	—
— Disposals	(27.0)	—	(27.0)
Revisions			
Reserves at December 31, 1992	490.8	—	490.8



CZAR RESOURCES LTD.

FINANCIAL

Management's Discussion and Analysis of Financial Condition and Operating Results

Czar's operating results were significantly improved in 1992 and as a result, the Company is currently in its best financial condition in more than a decade. The Company's improved balance sheet and financial ratios result from record production revenue, earnings and funds generated from operations, together with the proceeds from equity financings completed in December, 1992 and March, 1993.

Revenue

During the year ended December 31, 1992, total revenue increased by \$2.7 million or 13%, to \$23.7 million, from \$21.0 million in 1991.

Production

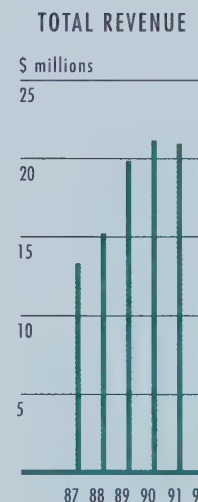
Czar is primarily a natural gas producer with 90% of the Company's revenue coming from natural gas sales. During the year ended December 31, 1992, the Company's natural gas production increased by 2% to average 45.0 MMCF/D. Czar's natural gas operations are located primarily in British Columbia and Alberta.

British Columbia

Czar's focus over the past several years has been on the development of natural gas reserves and deliverability for natural gas sales contract requirements in British Columbia and has resulted in an increase in British Columbia natural gas sales as a percentage of the Company's total gas sales. However, this trend reversed in 1992 as both the absolute volume and the percentage of production coming from British Columbia declined. During 1992, declines in production rates in some of the Company's older pools more than offset production gains in the Helmet area. An average of 55% of Czar's 1992 gas production was from British Columbia where the Company's production averaged 24.9 MMCF/D. As the price of gas at the wellhead is lower in British Columbia than in Alberta, the increase in the percentage of gas produced in Alberta is partially responsible for the increase in the Company's average gas price.

Substantially all of the Company's British Columbia reserves are dedicated to long-term contracts, however short-term gas sales are used from time to time to optimize the availability of long-term firm pipeline capacity.

Production from an oil well drilled in January of 1992 in the Owl area reversed a trend of declining oil and NGLs production and resulted in Czar's production averaging 366 BBLS/D of oil and NGLs during 1992.





Alberta

Czar's Alberta production returned to the level achieved in 1989 and averaged 20.1 MMCF/D for 1992. Additional production from wells connected late in 1991 in the Gadsby and Drumheller areas offset production declines. In addition, during 1992 Czar participated in the acquisition and connection of six wells in the Drumheller, Gadsby, Wembley, Hylo and Craigend areas of Alberta. This increased deliverability, combined with higher levels of contract demand during the year, resulted in a 20% increase in natural gas production in Alberta during 1992.

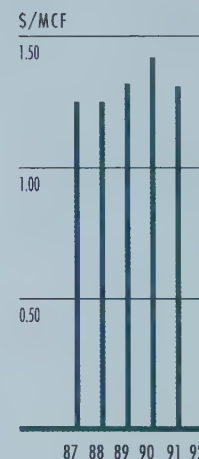
Substantially all of the Company's natural gas is dedicated to long-term natural gas contracts. Czar's contracts in Alberta and British Columbia provide Czar with the opportunity to add approximately 150 BCF of reserves and 30 MMCF/D of deliverability over the next three years, providing the Company major growth potential.

Product Prices

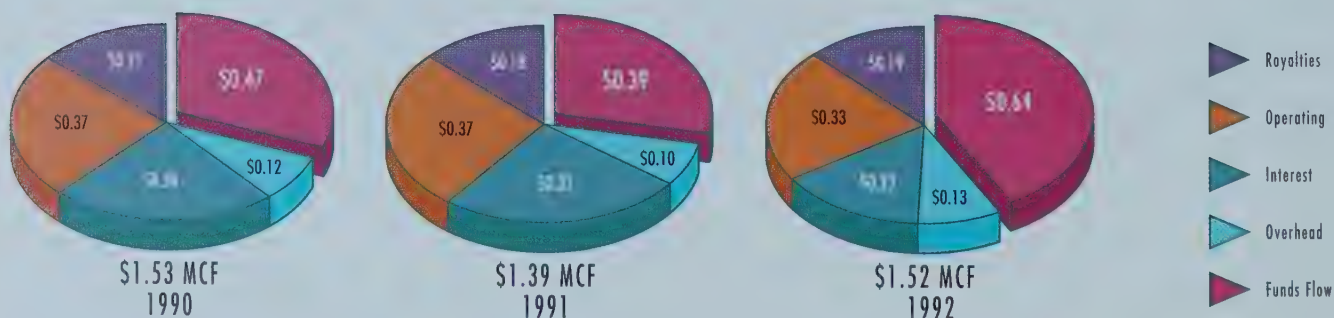
The most significant factor in Czar's increase in oil and gas sales revenue was the increase in average gas price, from \$1.31/MCF for 1991 to \$1.45/MCF for 1992. This accounted for two thirds of the increase in sales revenue. Natural gas prices fell sharply in February of 1992, however a number of factors affected the supply, including reports of unusually low inventory levels in the spring of 1992, more responsible marketing practices by the major corporations, the introduction of prorationing in two key States, an interruption in Gulf Coast supply due to a hurricane and generally colder weather than in previous years. As a consequence, gas prices rebounded and escalated to the current levels of approximately \$2 U.S./MCF.

At the writing of this report, low storage levels throughout North America and shortfalls in deliverability from Alberta are being reflected in high gas prices on the futures market, indicating a likely continuation of the current high price environment throughout 1993.

CZAR'S AVERAGE WELLHEAD PRICE



DISTRIBUTION OF REVENUE – PER EQUIVALENT UNIT





Expenses

Production expenses for 1992 were \$5.9 million or \$0.33 per equivalent MCF of production, compared with \$6.3 million or \$0.37 per equivalent MCF of production for 1991. This decrease reflects the implementation of certain cost reduction measures in 1992. In addition certain start-up costs were incurred in 1991 when production capacity in the Helmet area of northeast British Columbia was increased. These start up costs did not recur in 1992.

General and administrative costs increased to \$3.3 million during 1992 from \$2.8 million in 1991. Capitalized general and administrative costs also increased from \$0.9 million in 1991 to \$1.0 million during 1992, however the percentage of overhead costs capitalized remained constant at 32%. As a result, Czar's general and administrative expenses increased to \$2.3 million in 1992 from \$1.9 million in 1991. The increased expenses were due to an increase in staff and a reduction in overhead recovered from capital projects as a result of reduced drilling and construction expenditures during the year and a larger percentage of Czar's capital being spent on property acquisitions.

The most significant reduction in Czar's expenses during 1992 resulted from lower interest expense. During 1992 Czar reduced its capital expenditures in favour of debt reduction and as a result the Company's average debt outstanding declined over the year. While interest rates in Canada declined during the past two years, Czar had fixed the interest rate on \$20 million of its debt at 12.6% until April 27, 1992. During 1992 the Company entered into new fixed interest rate agreements, until the middle of 1997, for \$15 million of its bank debt, at an average rate of 9%. As a result the average rate paid on the Company's outstanding bank debt declined to 9.6% for 1992 from 14% in 1991.

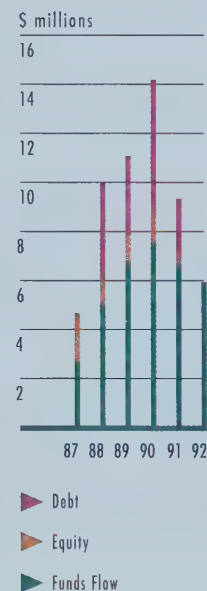
Depletion and Depreciation

During 1992 Czar added 16.0 BCF of natural gas and 120 MSTB of oil through its exploration and acquisition program at a unit cost of connected reserves of \$0.35 per equivalent MCF. However, as a result of non-core property dispositions and revisions to prior years estimates of reserves, the Company's depletion rate increased to \$0.42 per equivalent MCF in 1992 from \$0.40 per equivalent MCF in 1991.

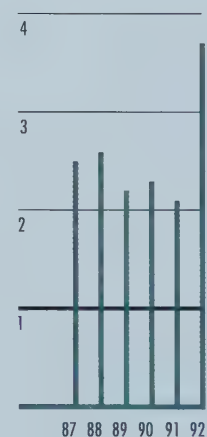
Earnings and Funds Flow Generated from Operations

As a result of increased revenues and lower interest expenses, Czar's funds flow from operations increased 71% to \$11.5 million, or \$0.31 per share from \$6.7 million, or \$0.18 per share in 1991. Earnings for 1992 were \$3.7 million, \$0.10 per share, compared with a loss of \$0.4 million, or \$0.01 per share in 1991.

FINANCING OF CAPITAL EXPENDITURES



FIXED CHARGE COVERAGE





Liquidity and Capital Resources

During 1992, Czar reduced its debt by \$5.4 million from its funds flow from operations and a further \$6.6 million from the sale of equity. On the Company's balance sheet at December 31, 1992, this was reflected as a reduction of long-term debt of \$7.3 million and a reduction of working capital deficiency by \$4.7 million. Subsequent to year end, the Company further reduced its debt by \$4.5 million from the proceeds of a subsequent private placement of equity.

Throughout 1992 Czar maintained adequate liquidity, despite having a working capital deficiency, by maintaining unused credit lines in excess of its working capital deficiency.

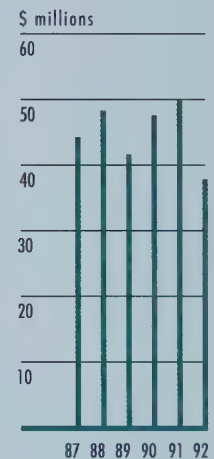
The Company has a \$35.5 million demand credit facility. The Company's demand credit facility is reviewed annually to establish a "lending base", being the value of the Company's natural gas and oil reserves as determined by its banker for the purpose of servicing and repaying bank debt. At December 31, 1992, the Company had utilized \$25 million of this credit facility.

There are no current payments required on the credit facility and there are no restrictions on the ability of the Company to use its undrawn credit facility together with funds flow from operations in its oil and gas exploration, development and acquisition program. The Company also has outstanding \$10 million of convertible debentures which mature on June 15, 1995 and capital lease financing of \$1.9 million repayable in monthly payments over varying periods until December 1995.

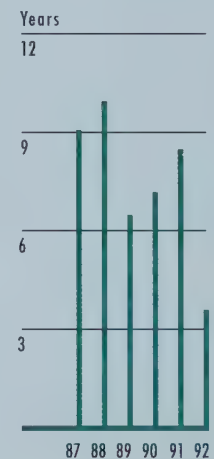
Income Taxes

Czar has not recorded any provision for current or deferred income taxes. Income tax deductions available to Czar, which were approximately \$115 million at December 31, 1992, exceed the book value of its assets by approximately \$57 million. The value of these tax deductions has not been recognized in the financial statements and therefore under current income tax laws and accounting procedures, and based on the revenue forecast contained in the Fekete Report and Czar's capital expenditure plans, Czar will not be required to record a current or deferred income tax provision for the next five years.

NET DEBT



DEBT/FUNDS FLOW





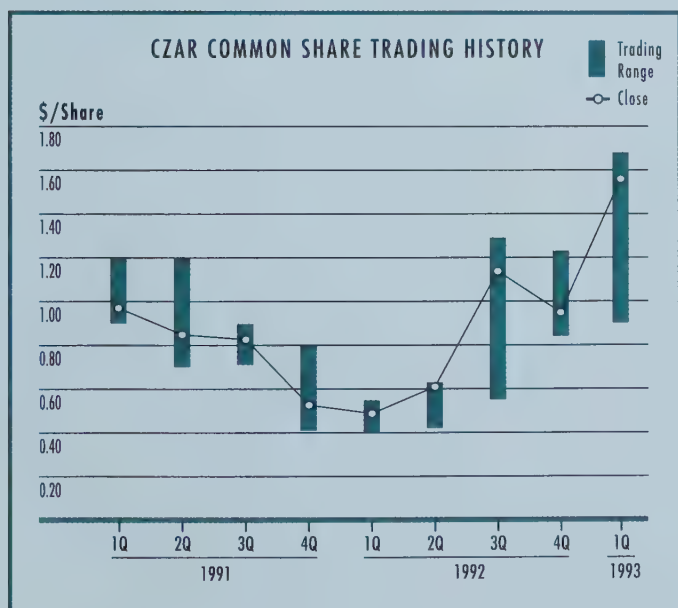
Sensitivity Analysis

Czar's revenues, funds flow from operations and earnings are dependent upon changes in the economic environment within which it operates. As part of its normal operations, Czar endeavours to control variables which can be controlled at a reasonable economic cost. Czar's revenues are generated predominantly from natural gas sales. Therefore, Czar's revenue, funds flow from operations and earnings are most sensitive to changes in natural gas pricing.

The Company has fixed the interest rate on all of its outstanding bank indebtedness for a period of five years at an average of 9% and therefore has no current sensitivity to changes in interest rates.

Key Variable	Change in Variable	Impact on Annual Funds Flow	
		\$000	\$/Share ¹
Natural gas			
Production MMCF/D	1.0	\$ 350	\$ 0.01
Price \$/MCF	\$ 0.10	\$ 1,610	\$ 0.04

¹ Per share calculations are based on outstanding shares at December 31, 1992.



Czar has been a public company since 1974, and was listed for trading on the Toronto Stock Exchange in 1978. Common shares trade under the symbol CZR and common share purchase warrants trade under the symbol CZR.WT.A.



CZAR RESOURCES LTD.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

<i>(in thousands of dollars)</i>	1992	1991
Assets		
Current Assets		
Cash	\$ 4,974	\$ —
Accounts receivable	7,479	5,474
Inventory of supplies	238	223
	12,691	5,697
Property, Plant and Equipment (note 2)	58,047	59,303
Deferred Financing Costs	268	375
	\$ 71,006	\$ 65,375
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 13,707	\$ 11,452
Current portion of long-term debt	948	989
	14,655	12,441
Long-Term Debt (note 3)	26,046	33,244
Convertible Debentures (note 4)	9,998	9,998
Site Restoration Provision	1,018	704
Shareholders' Equity		
Capital Stock (note 5)	14,338	7,738
Retained Earnings	4,951	1,250
	19,289	8,988
	\$ 71,006	\$ 65,375

Approved by the Board:

 , Director

 , Director



CZAR RESOURCES LTD.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31

<i>(in thousands of dollars except per share amounts)</i>	1992	1991
Revenue		
Production	\$ 29,333	\$ 26,398
Transportation costs	(2,698)	(3,234)
Royalties	(4,525)	(3,982)
Alberta royalty tax credit	1,022	958
Net Production Revenue	23,132	20,140
Processing revenue	572	703
Other	18	142
	23,722	20,985
Expenses		
Production	5,889	6,300
General and administrative	2,264	1,938
Interest on long-term debt	4,103	6,054
Depletion and depreciation	7,765	7,080
	20,021	21,372
Net Earnings (Loss)	3,701	(387)
Retained Earnings at Beginning of Year	1,250	1,637
Retained Earnings at End of Year	\$ 4,951	\$ 1,250
Net Earnings (Loss) per common share	\$ 0.10	\$ (0.01)



CZAR RESOURCES LTD.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

YEARS ENDED DECEMBER 31

<i>(in thousands of dollars except per share amounts)</i>	1992	1991
Cash Provided by (Used for):		
Operating Activities		
Net earnings (loss)	\$ 3,701	\$ (387)
Items not involving cash:		
Depletion and depreciation	7,765	7,080
Funds flow from operations	11,466	6,693
Change in non-cash working capital items related to operations	235	3,455
	11,701	10,148
Financing Activities		
Bank credit facility	(6,555)	(522)
Capital lease obligations	(684)	(389)
Issue of common shares:		
Pursuant to rights offering (net of issue costs of \$590)	5,522	—
Pursuant to employee savings plan	144	131
On exercise of options	22	—
Issue special warrants (net of issue costs of \$98)	912	—
	(639)	(780)
Investing Activities		
Property, plant and equipment expenditures	(5,974)	(9,368)
Site restoration costs	(114)	—
	(6,088)	(9,368)
Increase in Cash	4,974	—
Cash at Beginning of Year	—	—
Cash at End of Year	\$ 4,974	\$ —
Per common share		
Funds flow from operations	\$ 0.31	\$ 0.18
Fully diluted funds flow from operations	\$ 0.29	\$ 0.18



CZAR RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars unless otherwise indicated)

1. Accounting Policies

- (a) The consolidated financial statements include the accounts of Czar Resources Ltd. and its subsidiary company, which is wholly-owned.

- (b) Petroleum and Natural Gas Operations

- (i) The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost centre. A separate cost centre is established for each country in which the Company operates. The Company presently only operates in Canada. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, related overhead expenditures and capitalized interest related to major development projects. The costs in each cost centre, together with estimated future site restoration costs, are depleted using the composite unit of production method based upon estimated proved reserves after royalties. Crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

During 1990, the Company commenced providing for estimated future site restoration costs as part of the depletion provision. The provision for these costs is recorded as a long-term liability.

- (ii) Full Cost Ceiling Test

The net book value in each cost centre which can be carried forward for amortization against revenues of future periods is limited to an amount equal to the estimated future net revenues from proved reserves, based on current prices and costs, plus the lower of cost or estimated fair value of unproved properties. The aggregate net book value of all cost centres less deferred income taxes and the provision for site restoration costs is limited to the estimated future net revenues from proved reserves plus the lower of cost or estimated fair value of unproved properties less estimated future general and administrative expenses, financing costs, income taxes and future site restoration costs.

- (iii) Included in production revenue and expenses is consideration received for the sale of properties by the Company to certain drilling partnerships. Principal and interest payments are received based on a percentage of net revenue from the wells drilled by the partnerships. Unpaid principal installments total \$35,350,000 at December 31, 1992 (1991 – \$36,150,000). Principal and interest payments, which are recorded as and when received, are included in revenue and expenses as follows:



CZAR RESOURCES LTD.

	Years Ended December 31	
	1992	1991
Production revenue	\$ 1,578	\$ 1,704
Royalties	(205)	(218)
Production expenses	(507)	(648)
	<u>\$ 866</u>	<u>\$ 838</u>

(iv) All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others. The Company records only its proportionate interest in such activities.

(c) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proved reserves after royalties of each cost centre. Depreciation of other equipment is provided on a straight-line basis at rates which are estimated to amortize the cost of the assets over their useful lives.

(d) Deferred Financing Costs

Deferred financing costs relating to the convertible debentures are amortized on a straight-line basis over the term of the debentures.

(e) Inventory

The inventory of supplies is valued at the lower of cost or net realizable value.

(f) Net Earnings and Funds Flow Per Common Share

Net earnings and funds flow per common share are calculated using the weighted average number of common shares outstanding during the year of \$36,715,805 (1991 – \$36,331,883).

2. Property, Plant and Equipment

	December 31	
	1992	1991
Petroleum and natural gas leases and rights including exploration, development and equipment thereon at cost	\$ 98,378	\$ 92,648
Other	1,378	1,430
	<u>99,756</u>	<u>94,078</u>
Accumulated depletion and depreciation	(41,709)	(34,775)
	<u>\$ 58,047</u>	<u>\$ 59,303</u>

Property, plant and equipment include overhead expenditures, which are incurred in the exploration for and development of oil and gas properties, amounting to \$1,006,000 for the year ended December 31, 1992 (1991 – \$850,000).



CZAR RESOURCES LTD.

3. Long-Term Debt

	December 31	
	1992	1991
Bank credit facilities (i)	\$ 25,094	\$ 31,649
Obligations under capital lease (ii)	1,900	2,584
	26,994	34,233
Less current portion	948	989
	\$ 26,046	\$ 33,244

(i) Bank Credit Facilities

The Company has a revolving demand production loan facility in the amount of \$35,500,000 (1991 – \$37,500,000). This credit facility bears interest at prime plus 1/4%, and may be converted to a non-revolving term facility at the bank's discretion. The credit facility is subject to an annual review.

The credit facility is secured by a fixed charge debenture on certain assets and a floating charge debenture on all assets of the Company and assignments of accounts receivable and certain petroleum and natural gas properties and revenue interests therein.

During 1992, the Company fixed a portion of its interest rate through banker acceptances and interest swap agreements. \$5 million has a fixed interest rate of 9.5% until April 1994 and \$15 million has a fixed interest rate averaging 9.0% until June and July of 1997.

The Company has agreed with the Bank not to make any distributions, including dividends, to its shareholders without the consent of the Bank and to maintain certain funds flow levels, working capital and asset value ratios.

In the event that the Company issues common shares or securities convertible into common shares, the Bank has the option to participate on a secondary basis such that 50% of such offering shall be comprised of common shares then held by the Bank. The Bank does not have these rights in respect to flow-through share arrangements and employee option or savings plans.

(ii) Obligations under Capital Leases

Future minimum lease payments are as follows:

1993	\$ 1,115
1994	652
1995	389
	2,156
Less amounts representing interest averaging approximately 12% per annum	256
	1,900
Less current portion	948
	\$ 952



4. Convertible Debentures

The unsecured convertible debentures bear interest at 8.75% per annum payable semi-annually on June 15 and December 15 and mature on June 15, 1995. The debentures are convertible into common shares of the Company at the option of the holder at any time prior to June 16, 1995 at a conversion price of \$1.66 per common share. The conversion price is subject to adjustment in certain events. Prior to December 31, 1993, the debentures are redeemable if the common shares of the Company have traded at least at 125% of the conversion price for 20 consecutive trading days. Thereafter, they are redeemable at any time. The debentures are redeemable at par plus accrued interest and at an amount equal to 102% of par if redeemed prior to July 1, 1992, which reduces by 1% on each of July 1, 1993, 1994 and 1995.

5. Capital Stock

- (a) Authorized Capital Stock
 10,000,000 First preference shares issuable in series
 10,000,000 Second preference shares issuable in series
 Unlimited number of common shares

- (b) Issued Common Shares

	Number of Shares	Amount
Balance December 31, 1990	36,279,617	\$ 7,607(i)
Employee savings plan	165,511	131
Balance December 31, 1991	36,445,128	7,738
Employee savings plan	219,948	144
For cash on exercise of option	40,000	22
For cash through rights offering	6,111,729	5,522
Balance December 31, 1992	42,816,805	\$ 13,426
Special Warrants (ii)	1,010,000	\$ 912

- (i) At the annual and special meeting of shareholders held on June 7, 1990, the shareholders approved a reduction of share capital of \$52,905,000, being the Company's consolidated deficit at December 31, 1989.
- (ii) The Special Warrants were issued to a significant shareholder on December 23, 1992. The warrants are exercisable into units consisting of one common share and one common share purchase warrant upon the filing of a prospectus by the Company with the necessary regulatory agencies.



CZAR RESOURCES LTD.

(c) Common Share Options

Directors, officers and employees hold options to purchase 2,414,000 common shares of the Company at an exercise price of \$0.56 from time to time to September 22, 1994, 7,500 common shares at an exercise price of \$0.56 from time to time until July 16, 1995, 200,000 common shares at an exercise price of \$0.56 from time to time until May 25, 1997, and 65,000 common shares at an exercise price of \$0.84 from time to time until August 20, 1997.

(d) Employee Savings Plan

The employee savings plan provides for employee savings of up to 5% of salary which is matched by the Company in the form of common shares of the Company. During the year ended December 31, 1992, employees became entitled to receive 219,948 common shares (1991 – 165,511).

(e) Common Share Purchase Warrants

The Company has 6,111,729 outstanding common share purchase warrants which entitle the holders to purchase 3,055,865 shares at \$1.25 per share until December 30, 1994. An additional 1,010,000 common share purchase warrants will be issued on the exercise of the outstanding Special Warrants, which will entitle the holders to purchase 505,000 common shares at \$1.25 per share until December 30, 1994.

6. Income Taxes

At December 31, 1992, the Company had approximately \$115,000,000 of tax deductions available to reduce future years' income for tax purposes. The benefit of the excess of the amount over the net book value of the related assets has not been reflected in the financial statements.

The following table reconciles the expected tax provision based on current combined federal and provincial rates (44%) to the actual tax provision.

	Years Ended December 31	
	1992	1991
Expected income tax provision (recovery)	\$ 1,628	\$ (170)
Increase (decrease) in expected tax provision:		
Non-taxable gain on sale of subsidiary	–	(42)
Non-deductible provincial royalties and lease rentals	1,443	1,276
Other non-deductible items	79	32
Non-deductible depletion	225	220
Alberta royalty tax credit	(450)	(421)
Resource allowance	(1,475)	(1,196)
Utilization of prior years' losses	(1,450)	–
Unrecognized benefit of losses	–	301
Actual income tax provision	\$ –	\$ –



7. Related Party Transactions

Canadian Frobisher Resources Ltd., the major shareholder of which is a director and officer of the Company, participated with the Company in its exploration and development operation pursuant to joint venture agreements.

Pursuant to the agreement, Canadian Frobisher participated in essentially all of the drilling and acquisition activities of the Company. Canadian Frobisher earns 34% (1991 – 17%) of the Company's interest in properties by paying 40% (1991 – 20%) of the Company's share of the costs of drilling and completion operations and 34% (1991 – 17%) of acquisition costs. During the year ended December 31, 1992, Frobisher incurred costs of \$1,104,000 (1991 – \$1,287,000) pursuant to the agreement and at December 31, 1992 there was an amount payable to Canadian Frobisher of \$55,000 (1991 – \$133,000).

Effective May 1, 1989, the Company entered into a joint venture and management agreement with Orbit Oil & Gas Ltd., a corporation with certain common directors, officers and shareholders, whereby the Company and Orbit share overhead costs and jointly participate in new exploration, development and acquisition activities. The Company is reimbursed for a proportionate share of its costs and expenses incurred in providing overhead services based upon the relative revenue and capital expenditures of the two companies. All oil and gas activities conducted on properties acquired subsequent to May 1, 1989, are conducted with Orbit in a sharing ratio established annually. At December 31, 1992 there was a receivable from Orbit of \$1,367,000 (1991 – \$475,000). Inter-company balances with Canadian Frobisher and Orbit are settled on a monthly basis.

8. Subsequent Events

Special Warrants

On March 9, 1993, the Company issued 5,000,000 Special Warrants at an issue price of \$1.00 per Special Warrant on a private placement basis. Each Special Warrant entitles the holder to acquire one common share and one common share purchase warrant without the payment of any additional consideration. Two common share purchase warrants plus \$1.25 entitle the holder to acquire one common share prior to December 30, 1994. The Company has an obligation to file, and use its best efforts to obtain a receipt for, a prospectus qualifying the distribution of the common shares and common share purchase warrants issuable upon exercise of the Special Warrants with certain regulatory authorities. If such receipts are not issued within 90 days from the date of issuance of the Special Warrants, the number of common shares and common share purchase warrants issuable on exercise of the Special Warrants (other than those held by insiders of the Company) increases at a rate of 1% each month, subject to a maximum increase of 8%. Net proceeds to the Company from the issuance of the Special Warrants was \$5,574,400, after deducting the fees and expenses incurred in connection with the sale of the Special Warrants.



CZAR RESOURCES LTD.

MANAGEMENT REPORT

The management of Czar Resources Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and where necessary, include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

Peat Marwick Thorne, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and meets regularly with management and Peat Marwick Thorne to discuss internal controls, accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

March 12, 1993

President

Chief Financial Officer

AUDITORS' REPORT

We have audited the consolidated balance sheets of Czar Resources Ltd. as at December 31, 1992 and 1991 and the consolidated statements of earnings and retained earnings and source and use of cash for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 12, 1993

Peat Marwick Thorne
Chartered Accountants



CORPORATE INFORMATION

Board of Directors

Robert W. Lamond ¹
Chairman of the Board
President and CEO
of the Company
Calgary, Alberta

Charles A. Teare
Executive Vice President
and CFO of the Company
Calgary, Alberta

Allan R. Twa
Partner
Burnet, Duckworth & Palmer
Calgary, Alberta

Frank Benevento II
President and CEO
Energy Recovery
Management Inc.
Palm Beach, Florida

Brian C. Bentz ^{1,2}
Vice President, Finance
H.A. Simons (Overseas) Ltd.
Vancouver, B.C.

Donald M. Deacon
Independent Businessman
Charlottetown, P.E.I.

Ashley G. Down ²
Director
M & G Group PLC
London, England

Gary M. Pittman ¹
Financial Analyst
Energy Recovery
Management Inc.
Washington, D.C.

**Officers and
Senior Personnel**

Robert W. Lamond
Chairman, President
and CEO

Charles A. Teare
Executive Vice President
and CFO

P. Richard Ewacha
Vice President, Production

Allan R. Twa
Corporate Secretary

Paul M. Boechler
Controller

Wayne T. Radcliffe
District Land Manager

Sharon P. Runge
District Land Manager

Herbert J. Visscher
Exploration Manager

Donald K. Clark
Production Manager,
British Columbia

Philip W. Payzant
Production Manager,
Alberta

Kumar Mendis
Accounting Manager

M. Lucy Ionescu
Manager Reservoir Engineering

Russ M. Sych
Senior Production Foreman
Alberta Production Operations

Warren M. Smith
Senior Production Foreman
British Columbia Production
Operations

Corporate Office

2100, 144 - 4 Avenue S.W.
Calgary, Alberta
T2P 3N4
Tel: (403) 265-0270
Fax: (403) 263-2341

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Auditors

Peat Marwick Thorne
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust of Canada
Calgary, Alberta

Stock Listings

The Toronto Stock Exchange
Trading Symbol
Common Share CZR
Warrants CZR.WT.A

**Reserve Engineering
Consultants**

Fekete Associates Inc.
Calgary, Alberta

¹ Audit Committee

² Compensation Committee

Abbreviations

Throughout this report, standard oil and gas abbreviations have been used. Their explanation is as follows:

<i>BBLs</i>	<i>Barrels</i>
<i>MSTB</i>	<i>Thousand Stock Tank Barrels</i>
<i>MMCF/D</i>	<i>Million Cubic Feet Per Day</i>
<i>BBLs/D</i>	<i>Barrels Per Day</i>
<i>MCF</i>	<i>Thousand Cubic Feet</i>
<i>MMCF</i>	<i>Million Cubic Feet</i>
<i>BCF</i>	<i>Billion Cubic Feet</i>
<i>TCF</i>	<i>Trillion Cubic Feet</i>
<i>NGLs</i>	<i>Natural Gas Liquids</i>

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